

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2019



Hoffman, Philipp, & Knutson, PLLC

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

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TWIN VALLEY, MINNESOTA**

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INTRODUCTORY SECTION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2019**

<u>City Council</u>	<u>Position</u>	<u>Term Expires</u>
Elected		
Benjamin Fall	Mayor	December 31, 2020
Joel Pearson	Vice-Mayor	December 31, 2020
Michael Bolton	Councilmember	December 31, 2022
Nathan Dobmeyer	Councilmember	December 31, 2020
Mike Lampton	Councilmember	December 31, 2022
Appointed		
Rachel L. Johnson	Clerk/Treasurer	Indefinite

FINANCIAL SECTION



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Twin Valley

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley, Minnesota, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Twin Valley's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2020, on our consideration of the City of Twin Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hoffman, Philipp, & Knutson, PLLC
April 7, 2020



CITY OF TWIN VALLEY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The management of the City of Twin Valley offers readers of the City's Financial Statements this narrative overview and analysis of the financial activities of the City of Twin Valley for the fiscal year ended December 31, 2019. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the City's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$1,247,249 of which \$421,836 is the net investment in capital assets, \$102,870 is restricted for specific purposes, and \$722,543 is unrestricted. The total net position of governmental activities increased by \$80,631 for the year ended December 31, 2019. This is attributed primarily to the addition of capital assets financed by grants.

The total net position of business-type activities is \$3,696,268 of which \$1,353,580 is the net investment in capital assets, \$701,918 is restricted for debt service, and \$1,640,770 is unrestricted. The total net position of business-type activities increased by \$188,875 in 2019, primarily due to the addition of capital assets financed by grants and refunding of long-term debt.

At the close of 2019, the City's governmental funds reported combined ending fund balances of \$832,625, a decrease of \$14,425 from the prior year. Of the total fund balance amount, \$102,870 is legally or contractually restricted, \$704,665 is assigned for specific purposes, and the unassigned fund balance amount is \$25,090. Maintaining an adequate fund balance is necessary to provide City services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, highways and streets, culture and recreation, conservation of natural resources, and economic development. Property taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities**—The City charges fees to cover the costs of certain services it provides. Included here are the operations of the municipal liquor dispensary, sanitation, sewer, storm utility, and water.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Twin Valley, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three governmental fund types: General, Special Revenue, and Capital Projects. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other nonmajor governmental

funds are combined in a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the combining statements after the notes to the financial statements.

The City of Twin Valley adopts annual budgets for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with its budget.

Proprietary Funds: The City of Twin Valley maintains five proprietary funds. 1) The Liquor Enterprise Fund is used to account for operations of the municipal liquor dispensary. Financing is provided through the liquor store's sale of on and off-sale liquor. 2) The Sanitation Enterprise Fund is used to account for operations of the garbage collection system. Financing is provided by charges to residents for services. 3) The Sewer Enterprise Fund is used to account for the operations of the City's sewer system. Financing is provided by charges to residents for services. 4) The Water Enterprise Fund is used to account for the operations of the City's water system. Financing is provided by charges to residents for services. 5) The Storm Utility Enterprise Fund is used to account for the operations of the City's storm drainage utility. Financing is provided by charges to residents for services. Proprietary funds provide the same type of information as the government-wide financial statements, and are included in the Statement of Net Position and the Statement of Activities as business-type activities. All of the enterprise funds are considered to be major funds except the Storm Utility Enterprise Fund.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The City also provides supplementary and other information including combining statements and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$4,943,517 at the close of 2019. Approximately 36 percent of the City's net position reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, land improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 16 percent of the City's net position is restricted for specific purposes and 48 percent of the City's net position is unrestricted. The unrestricted net position amount of \$2,363,313 as of December 31, 2019, may be used to meet the City's ongoing obligations to citizens.

The City's overall financial position increased from last year. Total assets increased by \$444,584 from the prior year, primarily due to an increase in capital assets. Total liabilities increased by \$106,000 from the prior year, primarily due to a contract payable at year end for the Water Treatment Facility Improvement Project. Deferred outflows of resources and deferred inflows of resources decreased by a net amount of \$69,078 related to pension expense. This resulted in an increased net position of \$269,506 from the prior year.

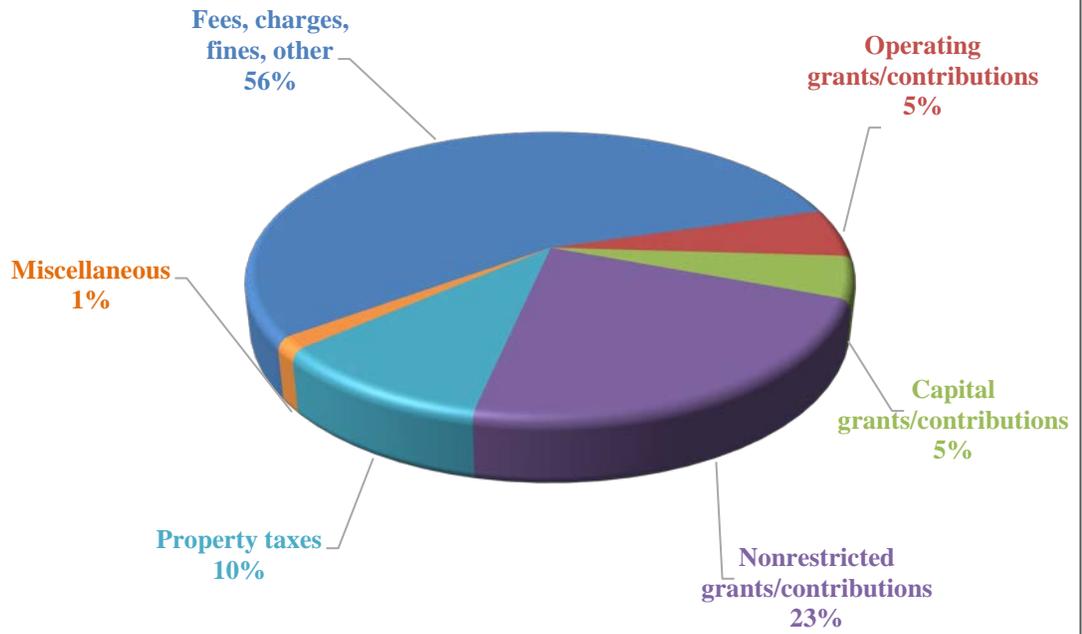
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,164,627	\$ 1,015,510	\$ 2,667,306	\$ 2,599,760	\$ 3,831,933	\$ 3,615,270
Capital assets	442,235	435,953	3,675,918	3,454,279	4,118,153	3,890,232
Total assets	\$ 1,606,862	\$ 1,451,463	\$ 6,343,224	\$ 6,054,039	\$ 7,950,086	\$ 7,505,502
Deferred Outflows - pensions	\$ 117,814	\$ 250,484	\$ 8,439	\$ 37,864	\$ 126,253	\$ 288,348
Other liabilities	\$ 36,228	\$ 28,769	\$ 144,259	\$ 22,159	\$ 180,487	\$ 50,928
Long-term liabilities outstanding	222,432	226,208	2,486,817	2,506,600	2,709,249	2,732,808
Total liabilities	\$ 258,660	\$ 254,977	\$ 2,631,076	\$ 2,528,759	\$ 2,889,736	\$ 2,783,736
Deferred Inflows - pensions	\$ 218,767	\$ 280,352	\$ 24,319	\$ 55,751	\$ 243,086	\$ 336,103
Net position						
Net investment in capital assets	\$ 421,836	\$ 428,925	\$ 1,353,580	\$ 1,078,279	\$ 1,775,416	\$ 1,507,204
Restricted	102,870	149,461	701,918	805,350	804,788	954,811
Unrestricted amounts	722,543	588,232	1,640,770	1,623,764	2,363,313	2,211,996
Total net position	\$ 1,247,249	\$ 1,166,618	\$ 3,696,268	\$ 3,507,393	\$ 4,943,517	\$ 4,674,011

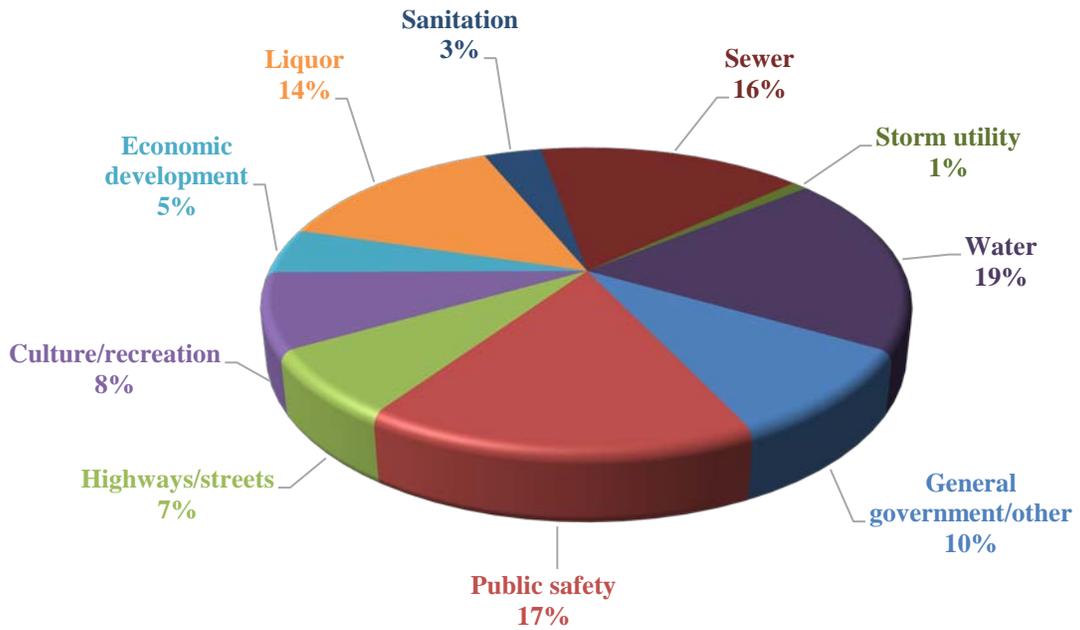
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Fees, charges, fines and other	\$ 148,164	\$ 73,746	\$ 676,095	\$ 701,959	\$ 824,259	\$ 775,705
Operating grants and contributions	81,203	76,346	-	-	81,203	76,346
Capital grants and contributions	70,712	2,020	362,850	29,347	433,562	31,367
General Revenues and Transfers						
Property taxes	151,513	147,476	-	-	151,513	147,476
Grants and contributions not restricted to specific programs	317,029	327,549	20,722	17,847	337,751	345,396
Investment earnings	4,097	4,393	560	440	4,657	4,833
Miscellaneous	14,904	13,176	907	2,527	15,811	15,703
Transfers	24,674	5,000	(24,674)	(5,000)	-	-
Total revenues	\$ 812,296	\$ 649,706	\$ 1,036,460	\$ 747,120	\$ 1,848,756	\$ 1,396,826
Expenses						
General government	\$ 147,963	\$ 134,391	\$ -	\$ -	\$ 147,963	\$ 134,391
Public safety	263,041	218,489	-	-	263,041	218,489
Highways and streets	112,629	95,159	-	-	112,629	95,159
Culture and recreation	128,760	92,419	-	-	128,760	92,419
Conservation of natural resources	1,779	1,541	-	-	1,779	1,541
Economic development	76,031	1,179	-	-	76,031	1,179
Interest	1,462	-	-	-	1,462	-
Liquor	-	-	222,889	199,346	222,889	199,346
Sanitation	-	-	54,736	69,410	54,736	69,410
Sewer	-	-	251,460	191,752	251,460	191,752
Storm utility	-	-	14,601	14,920	14,601	14,920
Water	-	-	303,899	226,502	303,899	226,502
Total expenses	\$ 731,665	\$ 543,178	\$ 847,585	\$ 701,930	\$ 1,579,250	\$ 1,245,108
Increase (decrease) in net position	\$ 80,631	\$ 106,528	\$ 188,875	\$ 45,190	\$ 269,506	\$ 151,718
Net position, January 1	1,166,618	1,060,090	3,507,393	3,462,203	4,674,011	4,522,293
Net position, December 31	\$ 1,247,249	\$ 1,166,618	\$ 3,696,268	\$ 3,507,393	\$ 4,943,517	\$ 4,674,011

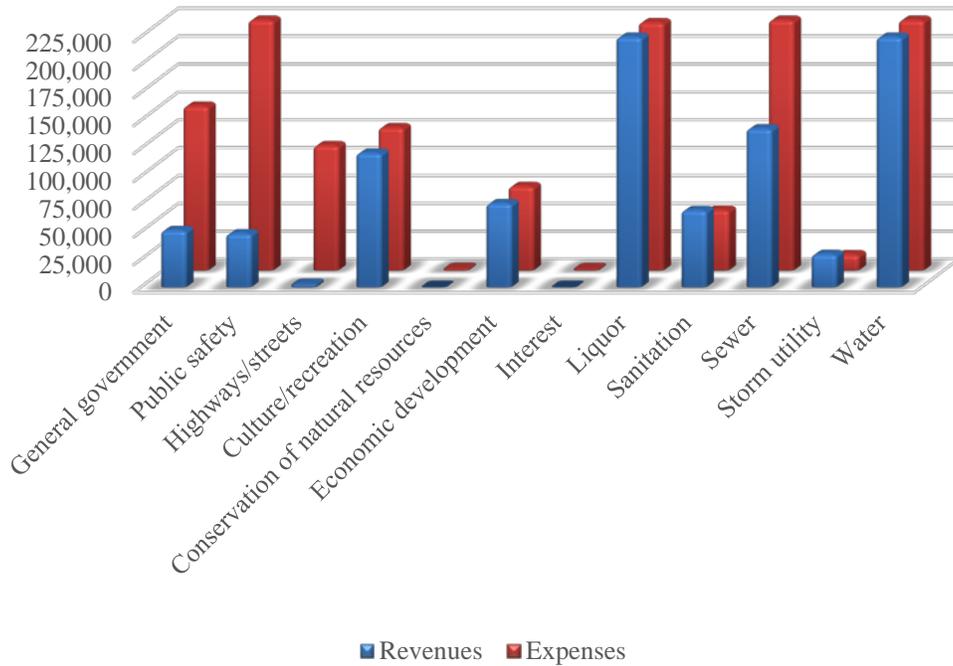
Revenues by Source



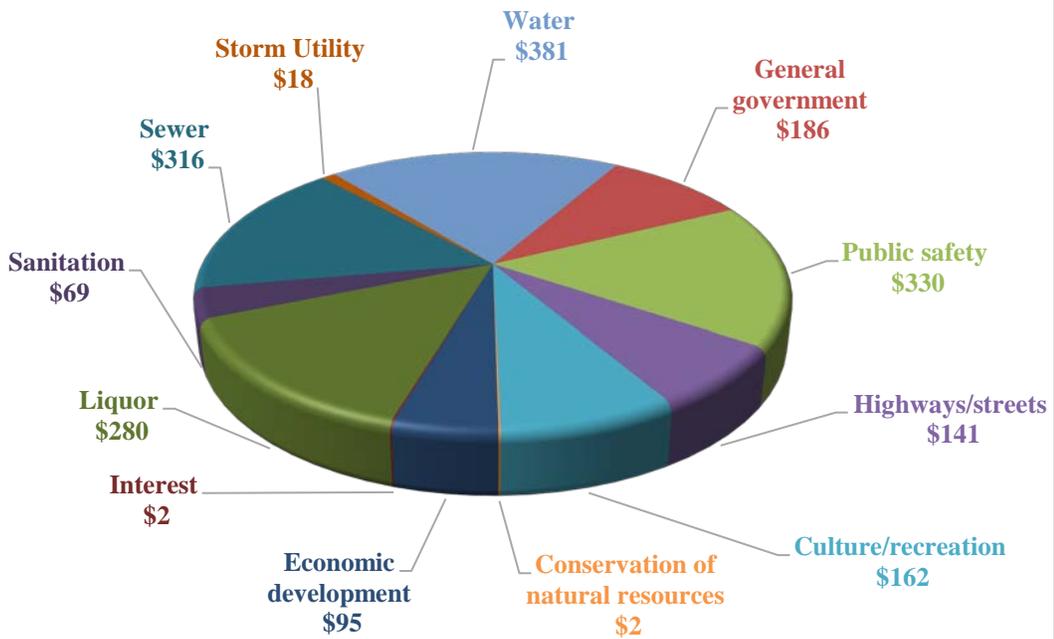
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 797 Population as of 2019



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2019, the City's governmental funds reported combined ending fund balances of \$832,625. Of this amount, 12 percent constitutes legally or contractually restricted fund balance, 85 percent constitutes specifically assigned fund balance, and approximately 3 percent constitutes the unassigned fund balance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the General Fund's total fund balance was \$651,507. The General Fund's restricted fund balance was \$547, the assigned fund balance was \$625,870, and the unassigned fund balance was \$25,090. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2019. Both unrestricted fund balance and total fund balance represent approximately 98 percent of total General Fund expenditures.

In 2019, the fund balance amount in the General Fund increased by \$72,551, due to a transfer in from the General Capital Projects Fund.

Proprietary Funds

The Liquor Enterprise Fund reported an operating income in 2019 of \$21,614, indicating that it is charging for products and services at a normal margin for this type of business.

The Sewer Enterprise Fund reported an operating income in 2019 of \$14,858, indicating that it is collecting fees for services at a rate consistent with costs.

The Water Enterprise Fund reported an operating loss in 2019 of \$58,597, indicating that the fund is not collecting fees at a rate consistent with costs.

The Sanitation Enterprise Fund reported an operating income in 2019 of \$9,272, indicating that the fund is collecting fees at a rate consistent with costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2019.

Actual revenues were more than overall budgeted revenues by \$29,738, with the largest variance in gifts and contributions. Actual expenditures were less than overall final budgeted expenditures by \$17,602, with the largest variance in capital outlay.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2019, amounted to \$4,118,153 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current fiscal year was approximately six percent. This increase was primarily due to the additions of splash park equipment and the water treatment facility improvement.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 58,376	\$ 58,376	\$ 46,816	\$ 46,816	\$ 105,192	\$ 105,192
Construction in progress	-	-	394,094	-	394,094	-
Infrastructure	64,392	69,263	3,082,341	3,239,149	3,146,733	3,308,412
Buildings and improvements	109,360	39,429	151,166	165,808	260,526	205,237
Land improvements	4,200	5,460	-	-	4,200	5,460
Machinery and equipment	205,907	263,425	1,501	2,506	207,408	265,931
Total capital assets	<u>\$ 442,235</u>	<u>\$ 435,953</u>	<u>\$ 3,675,918</u>	<u>\$ 3,454,279</u>	<u>\$ 4,118,153</u>	<u>\$ 3,890,232</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$2,294,790 which is backed by the full faith and credit of the government.

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Police Interceptor Lease	\$ 20,399	\$ 29,891	\$ -	\$ -	\$ 20,399	\$ 29,891
Minnesota PFA Drinking Water State Revolving Funds	-	-	80,338	-	80,338	-
G.O. Utility Revenue and Refunding Bonds, Series 2012A	-	-	229,000	286,000	229,000	286,000
G.O. Utility Revenue and Refunding Bonds, Series 2013A	-	-	-	2,090,000	-	2,090,000
G.O. Utility Revenue and Refunding Bonds, Series 2019B	-	-	2,013,000	-	2,013,000	-
Less: Bond discount	-	-	-	(33,910)	-	(33,910)
	<u>\$ 20,399</u>	<u>\$ 29,891</u>	<u>\$ 2,322,338</u>	<u>\$ 2,342,090</u>	<u>\$ 2,342,737</u>	<u>\$ 2,371,981</u>

Minnesota Statutes limit the amount of debt that the City may have to three percent of its total market value, excluding revenue bonds. At the end of 2019, overall debt of the City is below the three percent debt limit.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

- Specific unemployment statistics for the City of Twin Valley are not available. However, according to the Minnesota Department of Employment & Economic Development, the unemployment rate for Norman County was 5.2 percent as of December 31, 2019. This is higher than the statewide rate of 3.5 percent and higher than the national average rate of 3.4 percent.
- Twin Valley's 2019 population per the League of Minnesota Cities was 797, a decrease of 24 since the 2010 census of 821.
- On December 9, 2019, the City of Twin Valley set its 2020 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the City of Twin Valley for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Twin Valley Clerk/Treasurer, City Hall, P.O. Box 307, Twin Valley, Minnesota 56584.

BASIC FINANCIAL STATEMENTS

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 465,239	\$ 1,637,732	\$ 2,102,971
Investments	386,536	116,062	502,598
Taxes receivable			
Current	3,345	463	3,808
Prior	16,210	2,434	18,644
Special assessments receivable			
Current	181	4,543	4,724
Prior	606	30,434	31,040
Accounts receivable	12,641	11,965	24,606
Loans receivable	129,798	-	129,798
Due from other governments	-	110,487	110,487
Inventories	-	49,950	49,950
Prepaid items	911	1,308	2,219
Special assessments receivable - noncurrent	-	701,928	701,928
Net pension asset	149,160	-	149,160
Capital assets			
Non-depreciable	58,376	440,910	499,286
Depreciable - net of accumulated depreciation	383,859	3,235,008	3,618,867
Total Assets	\$ 1,606,862	\$ 6,343,224	\$ 7,950,086
<u>Deferred Outflows of Resources</u>			
Related to pensions	\$ 117,814	\$ 8,439	\$ 126,253
<u>Liabilities</u>			
Accounts payable	\$ 8,461	\$ 131,417	\$ 139,878
Salaries payable	26,267	8,058	34,325
Due to other governments	-	4,784	4,784
Customer deposits	1,500	-	1,500
Long-term liabilities			
Due within one year	20,745	69,030	89,775
Due in more than one year	24,803	2,274,924	2,299,727
Net pension liability	176,884	142,863	319,747
Total Liabilities	\$ 258,660	\$ 2,631,076	\$ 2,889,736
<u>Deferred Inflows of Resources</u>			
Related to pensions	\$ 218,767	\$ 24,319	\$ 243,086
<u>Net Position</u>			
Net investment in capital assets	\$ 421,836	\$ 1,353,580	\$ 1,775,416
Amounts restricted for			
Debt service	-	701,918	701,918
Culture and recreation	547	-	547
Economic development	102,323	-	102,323
Unrestricted amounts	722,543	1,640,770	2,363,313
Total Net Position	\$ 1,247,249	\$ 3,696,268	\$ 4,943,517

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

		Program Revenues	
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 147,963	\$ 50,629	\$ 958
Public safety	263,041	20,739	27,862
Highways and streets	112,629	-	-
Culture and recreation	128,760	935	52,383
Conservation of natural resources	1,779	-	-
Economic development	76,031	75,861	-
Interest	1,462	-	-
Total governmental activities	\$ 731,665	\$ 148,164	\$ 81,203
Business-type activities			
Liquor	\$ 222,889	\$ 247,049	\$ -
Sanitation	54,736	69,594	-
Sewer	251,460	130,281	-
Storm utility	14,601	26,326	-
Water	303,899	202,845	-
Total business-type activities	\$ 847,585	\$ 676,095	\$ -
Total	\$ 1,579,250	\$ 824,259	\$ 81,203

General revenues and transfers

- Property taxes
- Grants and contributions not restricted to specific programs
- Investment earnings
- Miscellaneous
- Transfers

Total general revenues and transfers

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (96,376)	\$ -	\$ (96,376)
-	(214,440)	-	(214,440)
2,979	(109,650)	-	(109,650)
67,733	(7,709)	-	(7,709)
-	(1,779)	-	(1,779)
-	(170)	-	(170)
-	(1,462)	-	(1,462)
\$ 70,712	\$ (431,586)	\$ -	\$ (431,586)
\$ -	\$ -	\$ 24,160	\$ 24,160
-	-	14,858	14,858
12,566	-	(108,613)	(108,613)
3,642	-	15,367	15,367
346,642	-	245,588	245,588
\$ 362,850	\$ -	\$ 191,360	\$ 191,360
\$ 433,562	\$ (431,586)	\$ 191,360	\$ (240,226)
	\$ 151,513	\$ -	\$ 151,513
	317,029	20,722	337,751
	4,097	560	4,657
	14,904	907	15,811
	24,674	(24,674)	-
	\$ 512,217	\$ (2,485)	\$ 509,732
	\$ 80,631	\$ 188,875	\$ 269,506
	1,166,618	3,507,393	4,674,011
	\$ 1,247,249	\$ 3,696,268	\$ 4,943,517

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General Fund	Other Governmental Funds (Statement 1)	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 303,049	\$ 162,190	\$ 465,239
Investments	367,818	18,718	386,536
Taxes receivable			
Current	3,135	210	3,345
Prior	15,104	1,106	16,210
Special assessments receivable			
Current	181	-	181
Prior	606	-	606
Accounts receivable	12,641	-	12,641
Loans receivable	-	129,798	129,798
Prepaid items	911	-	911
Total Assets	\$ 703,445	\$ 312,022	\$ 1,015,467
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 8,461	\$ -	\$ 8,461
Salaries payable	26,267	-	26,267
Customer deposits	1,500	-	1,500
Total Liabilities	\$ 36,228	\$ -	\$ 36,228
Deferred Inflows of Resources			
Taxes	\$ 15,104	\$ 1,106	\$ 16,210
Loans	-	129,798	129,798
Special assessments	606	-	606
Total Deferred Inflows of Resources	\$ 15,710	\$ 130,904	\$ 146,614
Fund Balances			
Restricted for			
Economic development	\$ -	\$ 102,323	\$ 102,323
Culture and recreation	547	-	547
Assigned to			
General government	283,037	-	283,037
Public safety	52,648	-	52,648
Highways and streets	272,590	-	272,590
Culture and recreation	17,595	-	17,595
Capital outlay	-	78,795	78,795
Unassigned	25,090	-	25,090
Total Fund Balances	\$ 651,507	\$ 181,118	\$ 832,625
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 703,445	\$ 312,022	\$ 1,015,467

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019**

Fund balances - total governmental funds (Exhibit 3)	\$	832,625
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		442,235
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		146,614
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Capital lease payable	\$ (20,399)	
Compensated absences	<u>(25,149)</u>	(45,548)
<p>Net pension asset, net pension liability and related inflows/outflows of resources represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the governmental funds:</p>		
Net pension asset	\$ 149,160	
Net pension liability	(176,884)	
Deferred outflows related to pensions	117,814	
Deferred inflows related to pensions	<u>(218,767)</u>	<u>(128,677)</u>
Net position of governmental activities (Exhibit 1)	\$	<u>1,247,249</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund	Other Governmental Funds (Statement 2)	Total Governmental Funds
Revenues			
Property taxes	\$ 143,950	\$ 10,206	\$ 154,156
Special assessments	491	-	491
Licenses and permits	2,635	-	2,635
Intergovernmental	397,253	-	397,253
Charges for services	22,243	-	22,243
Gifts and contributions	70,890	-	70,890
Investment earnings	3,856	241	4,097
Miscellaneous	47,521	5,075	52,596
Total Revenues	\$ 688,839	\$ 15,522	\$ 704,361
Expenditures			
Current			
General government	\$ 149,465	\$ -	\$ 149,465
Public safety	211,930	-	211,930
Highways and streets	97,928	-	97,928
Culture and recreation	118,430	-	118,430
Conservation of natural resources	1,779	-	1,779
Economic development	-	76,031	76,031
Debt service			
Principal retirement	9,492	-	9,492
Interest and fees	1,462	-	1,462
Capital outlay			
Highways and streets	2,300	-	2,300
Culture and recreation	74,713	-	74,713
Total Expenditures	\$ 667,499	\$ 76,031	\$ 743,530
Excess of Revenues Over (Under) Expenditures	\$ 21,340	\$ (60,509)	\$ (39,169)
Other Financing Sources (Uses)			
Transfers in	\$ 51,211	\$ 24,674	\$ 75,885
Transfers out	-	(51,211)	(51,211)
Total Other Financing Sources (Uses)	\$ 51,211	\$ (26,537)	\$ 24,674
Net Change in Fund Balance	\$ 72,551	\$ (87,046)	\$ (14,495)
Fund Balance - January 1	578,956	268,164	847,120
Fund Balance - December 31	\$ 651,507	\$ 181,118	\$ 832,625

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (14,495)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 77,013	
Current year depreciation	(65,931)	
Net book value of assets disposed	(4,800)	6,282

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in		
Taxes receivable	\$ (2,643)	
Special assessments receivable	310	
Loans receivable	70,786	68,453

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term
debt consumes the resources of governmental funds. Neither transaction,
however, has any effect on net position.

Principal repayment		9,492
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Some expenses reported in the Statement of Activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds.

Change in compensated absences payable		(4,655)
--	--	---------

Net pension liability does not represent the impending use of current resources.
Therefore, the change in the liability and the related deferrals are not
reported in the governmental funds:

		15,554

Change in net position of governmental activities (Exhibit 2) \$ 80,631

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

	<u>Liquor</u> <u>Enterprise</u>	<u>Sanitation</u> <u>Enterprise</u>	<u>Sewer</u> <u>Enterprise</u>	<u>Water</u> <u>Enterprise</u>	<u>Nonmajor</u> <u>Storm Utility</u> <u>Enterprise</u>	<u>Total</u>
<u>Assets</u>						
Current Assets						
Cash and pooled investments	\$ 220,418	\$ 134,548	\$ 535,155	\$ 638,043	\$ 109,568	\$ 1,637,732
Investments	74,259	-	36,705	5,098	-	116,062
Taxes receivable						
Current	-	-	293	64	106	463
Prior	-	-	1,461	365	608	2,434
Special assessments receivable						
Current	-	-	1,855	2,423	265	4,543
Prior	-	1,280	13,173	15,509	472	30,434
Accounts receivable	-	1,316	2,932	6,946	771	11,965
Due from other governments	-	-	-	110,487	-	110,487
Inventories	49,950	-	-	-	-	49,950
Prepaid items	1,308	-	-	-	-	1,308
Total Current Assets	\$ 345,935	\$ 137,144	\$ 591,574	\$ 778,935	\$ 111,790	\$ 1,965,378
Noncurrent Assets						
Special assessments receivable	\$ -	\$ -	\$ 244,462	\$ 457,466	\$ -	\$ 701,928
Capital assets						
Non-depreciable	10,000	-	18,086	401,094	11,730	440,910
Depreciable - net of accumulated depreciation	64,881	-	1,508,864	1,173,356	487,907	3,235,008
Total Noncurrent Assets	\$ 74,881	\$ -	\$ 1,771,412	\$ 2,031,916	\$ 499,637	\$ 4,377,846
Total Assets	\$ 420,816	\$ 137,144	\$ 2,362,986	\$ 2,810,851	\$ 611,427	\$ 6,343,224
<u>Deferred Outflows of Resources</u>						
Related to pensions	\$ 4,219	\$ -	\$ 2,110	\$ 2,110	\$ -	\$ 8,439

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
<u>Liabilities</u>						
Current Liabilities						
Accounts payable	\$ 10,982	\$ -	\$ 584	\$ 119,851	\$ -	\$ 131,417
Salaries payable	4,822	-	1,618	1,618	-	8,058
Compensated absences payable	3,392	-	2,784	2,784	-	8,960
Due to other governments	3,875	802	-	107	-	4,784
MN PFA Loans payable	-	-	-	1,070	-	1,070
2012 Utility Revenue and Refunding Bonds payable	-	-	35,100	9,900	14,000	59,000
Total Current Liabilities	\$ 23,071	\$ 802	\$ 40,086	\$ 135,330	\$ 14,000	\$ 213,289
Noncurrent Liabilities						
Compensated absences payable	\$ 6,518	\$ -	\$ 3,069	\$ 3,069	\$ -	\$ 12,656
Net pension liability	71,431	-	35,716	35,716	-	142,863
MN PFA Loans payable	-	-	-	79,268	-	79,268
2019 Utility Revenue Refunding Note payable	-	-	704,550	1,308,450	-	2,013,000
2012 Utility Revenue and Refunding Bonds payable	-	-	100,800	29,700	39,500	170,000
Total Noncurrent Liabilities	\$ 77,949	\$ -	\$ 844,135	\$ 1,456,203	\$ 39,500	\$ 2,417,787
Total Liabilities	\$ 101,020	\$ 802	\$ 884,221	\$ 1,591,533	\$ 53,500	\$ 2,631,076
<u>Deferred Inflows of Resources</u>						
Related to pensions	\$ 12,159	\$ -	\$ 6,080	\$ 6,080	\$ -	\$ 24,319
<u>Net Position</u>						
Net investment in capital assets	\$ 74,881	\$ -	\$ 686,500	\$ 146,062	\$ 446,137	\$ 1,353,580
Amounts restricted for debt service	-	-	244,462	457,456	-	701,918
Unrestricted amounts	236,975	136,342	543,833	611,830	111,790	1,640,770
Total Net Position	\$ 311,856	\$ 136,342	\$ 1,474,795	\$ 1,215,348	\$ 557,927	\$ 3,696,268

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
Sales and Cost of Goods Sold						
Sales	\$ 537,765	\$ -	\$ -	\$ -	\$ -	\$ 537,765
Cost of goods sold	(299,713)	-	-	-	-	(299,713)
Gross Profit	\$ 238,052	\$ -	\$ -	\$ -	\$ -	\$ 238,052
Operating Revenues						
Charges for services	\$ -	\$ 69,005	\$ 130,281	\$ 202,845	\$ 24,935	\$ 427,066
Special assessments	-	589	-	-	1,391	1,980
Vending machine commission	4,438	-	-	-	-	4,438
Rental income	2,013	-	-	-	-	2,013
Total Operating Revenues	\$ 6,451	\$ 69,594	\$ 130,281	\$ 202,845	\$ 26,326	\$ 435,497
Total Gross Profit and Operating Revenues	\$ 244,503	\$ 69,594	\$ 130,281	\$ 202,845	\$ 26,326	\$ 673,549
Operating Expenses						
Personnel services	\$ 133,002	\$ -	\$ 61,404	\$ 61,298	\$ -	\$ 255,704
Professional services	20,250	-	3,875	11,425	-	35,550
Contracted services	-	53,830	2,076	-	-	55,906
Administration	1,497	-	-	-	-	1,497
Advertising	4,077	-	-	-	-	4,077
Fuel	-	-	1,655	3,009	-	4,664
Insurance	11,304	-	5,110	5,634	-	22,048
Licenses and fees	-	-	-	362	-	362
Operating supplies	11,007	-	6,374	3,892	-	21,273
Other service and charges	-	906	-	-	-	906
Repairs and maintenance	3,937	-	21,581	21,910	-	47,428
Utilities	18,180	-	4,256	18,281	-	40,717
Miscellaneous	7,772	-	422	2,362	32	10,588
Depreciation	11,863	-	82,125	65,400	13,067	172,455
Total Operating Expenses	\$ 222,889	\$ 54,736	\$ 188,878	\$ 193,573	\$ 13,099	\$ 673,175
Operating Income (Loss)	\$ 21,614	\$ 14,858	\$ (58,597)	\$ 9,272	\$ 13,227	\$ 374

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
Nonoperating Revenues (Expenses)						
Property taxes	\$ -	\$ -	\$ 11,241	\$ 3,269	\$ 6,212	\$ 20,722
Special assessments	-	-	12,566	25,287	3,642	41,495
Miscellaneous	2,546	-	388	519	-	3,453
Intergovernmental	-	-	-	321,355	-	321,355
Investment earnings	168	-	344	48	-	560
Interest expense	-	-	(62,582)	(110,326)	(1,502)	(174,410)
Total Nonoperating Revenues (Expenses)	\$ 2,714	\$ -	\$ (38,043)	\$ 240,152	\$ 8,352	\$ 213,175
Income (Loss) Before Transfers	\$ 24,328	\$ 14,858	\$ (96,640)	\$ 249,424	\$ 21,579	\$ 213,549
Transfers in	\$ -	\$ -	\$ -	\$ 11,754	\$ 8,142	\$ 19,896
Transfers out	(24,674)	-	(19,896)	-	-	(44,570)
Total Transfers	\$ (24,674)	\$ -	\$ (19,896)	\$ 11,754	\$ 8,142	\$ (24,674)
Change in Net Position	\$ (346)	\$ 14,858	\$ (116,536)	\$ 261,178	\$ 29,721	\$ 188,875
Net Position - January 1	312,202	121,484	1,591,331	954,170	528,206	3,507,393
Net Position - December 31	\$ 311,856	\$ 136,342	\$ 1,474,795	\$ 1,215,348	\$ 557,927	\$ 3,696,268

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
Cash Flows from Operating Activities						
Receipts from customers	\$ 591,697	\$ 76,810	\$ 129,878	\$ 203,057	\$ 25,564	\$ 1,027,006
Payments to employees	(133,717)	-	(62,329)	(62,223)	-	(258,269)
Payments to suppliers	(423,133)	(67,149)	(45,047)	(64,999)	(32)	(600,360)
Net cash provided by (used in) operating activities	\$ 34,847	\$ 9,661	\$ 22,502	\$ 75,835	\$ 25,532	\$ 168,377
Cash Flows from Noncapital Financing Activities						
Miscellaneous receipts	\$ 2,380	\$ -	\$ 305	\$ 436	\$ -	\$ 3,121
Transfer in	-	-	-	11,754	8,142	19,896
Transfer out	(24,674)	-	(19,896)	-	-	(44,570)
Net cash provided by (used in) noncapital financing activities	\$ (22,294)	\$ -	\$ (19,591)	\$ 12,190	\$ 8,142	\$ (21,553)
Cash Flows from Capital and Related Financing Activities						
Property taxes received	\$ -	\$ -	\$ 13,486	\$ 3,654	\$ 5,498	\$ 22,638
Special assessments received	-	-	52,679	85,029	3,642	141,350
Intergovernmental receipts	-	-	-	232,965	-	232,965
Acquisition and construction of capital assets	-	-	-	(276,488)	-	(276,488)
MN PFA loan proceeds	-	-	-	58,241	-	58,241
Proceeds from debt issuance	-	-	704,550	1,317,593	-	2,022,143
Principal paid on debt	-	-	(768,938)	(1,368,345)	(18,860)	(2,156,143)
Interest paid on debt	-	-	(50,713)	(88,284)	(1,502)	(140,499)
Net cash provided by (used in) capital and related financing activities	\$ -	\$ -	\$ (48,936)	\$ (35,635)	\$ (11,222)	\$ (95,793)
Cash Flows from Investing Activities						
Investment earnings received	\$ 151	\$ -	\$ 344	\$ 48	\$ -	\$ 543
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 12,704	\$ 9,661	\$ (45,681)	\$ 52,438	\$ 22,452	\$ 51,574
Cash and Cash Equivalents at January 1	281,973	124,887	617,541	590,703	87,116	1,702,220
Cash and Cash Equivalents at December 31	\$ 294,677	\$ 134,548	\$ 571,860	\$ 643,141	\$ 109,568	\$ 1,753,794

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Liquor Enterprise</u>	<u>Sanitation Enterprise</u>	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Nonmajor Storm Utility Enterprise</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 21,614	\$ 14,858	\$ (58,597)	\$ 9,272	\$ 13,227	\$ 374
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation expense	\$ 11,863	\$ -	\$ 82,125	\$ 65,400	\$ 13,067	\$ 172,455
(Increase) decrease in assets						
Accounts receivable	-	(4)	(403)	212	(254)	(449)
Special assessments receivable	-	(656)	(948)	(1,038)	(508)	(3,150)
Inventories	(5,845)	-	-	-	-	(5,845)
Prepaid items	202	-	-	-	-	202
Increase (decrease) in liabilities						
Accounts payable	7,888	(4,631)	302	1,959	-	5,518
Salaries payable	158	-	(508)	(508)	-	(858)
Compensated absences payable	2,094	-	1,067	1,067	-	4,228
Due to other governments	(177)	94	-	7	-	(76)
Net pension liability	(2,950)	-	(536)	(536)	-	(4,022)
Total adjustments	\$ 13,233	\$ (5,197)	\$ 81,099	\$ 66,563	\$ 12,305	\$ 168,003
Net cash provided by (used in) operating activities	\$ 34,847	\$ 9,661	\$ 22,502	\$ 75,835	\$ 25,532	\$ 168,377

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

I. Summary of Significant Accounting Policies

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

The City of Twin Valley has the powers, duties, and privileges granted by state law, codified in Minnesota Statutes, Chapter 412. The City operates under a Mayor-Council form of government and provides services such as general government, public safety, highways and streets, culture and recreation, conservation of natural resources, economic development, a municipal liquor dispensary, and sanitation, sewer, storm utility, and water utilities, as authorized by its charter.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes, grants, donations, subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

The City reports the following major enterprise funds:

The Liquor Enterprise Fund is used to account for operations of the municipal liquor dispensary. Financing is provided through the liquor store's sale of on and off-sale liquor.

The Sewer Enterprise Fund is used to account for operations of the sewer utility. Financing is provided by charges to residents for services.

The Water Enterprise Fund is used to account for operations of the water utility. Financing is provided by charges to residents for services.

The Sanitation Enterprise Fund is used to account for operations of the sanitation utility. Financing is provided by charges to residents for services.

The City also reports the following nonmajor enterprise fund:

The Storm Utility Enterprise Fund is used to account for operations of the storm drainage utility.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The City considers tax revenues to be available if they are collected within 60 days after the end of the current period. Intergovernmental revenues, charges for services, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt are reported as other financing sources.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits. Additionally, each fund's equity in the City's deposits is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash and cash equivalents are valued at fair value.

2. Deposits and Investments

The cash balances of the funds are invested by the City Clerk/Treasurer for the purpose of increasing earnings through investment activities. City investments consist of certificates of deposit. Pooled and fund investments are reported at their fair value at December 31, 2019, based on market prices. Investment earnings on cash and pooled investments are allocated to the funds with deposits. Investment earnings on the pooled checking account for 2019 were \$2,484. Total investment earnings for 2019 were \$4,657.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

3. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed by Norman County in March with the first half payment due on May 15 and the second half due on October 15.

Taxes and special assessments receivable consist of uncollected taxes and special assessments payable in the years 2009 through 2019 and noncurrent special assessments collectible in 2020 and beyond. Taxes receivable are offset by deferred inflows of resources for the amount not collected within 60 days of December 31 to indicate they are not available to finance current expenditures. No provision has been made for an estimated uncollectible amount.

Accounts receivable consist primarily of charges for services for sanitation, sewer, storm utility, and water.

Loans receivable consist of rehabilitation and business loans. Loans receivable are offset by deferred inflows of resources for the balance outstanding as of year-end.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in the proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., sewers and water mains), buildings and improvements, land improvements, and machinery and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition cost value at the date of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Capital Assets (Continued)

assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

The City of Twin Valley has elected to report infrastructure acquired prior to periods ending after June 30, 1980.

Infrastructure, buildings and improvements, land improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15-50
Buildings and improvements	5-40
Land improvements	10-15
Machinery and equipment	5-25

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports delinquent property taxes, special assessments, loans receivable, and notes receivable as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of the unpaid, accumulated annual vacation and compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

8. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. In the fund financial statements, governmental fund types recognize the face amount of the debt as other financing sources when issued.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Pension liability is liquidated by the General Fund and the Liquor, Sewer, and Water Enterprise Funds.

10. Net Position and Fund Balance

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

In the fund financial statements, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact. At December 31, 2019, the City reports no non-spendable fund balances.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Net Position and Fund Balance (Continued)

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the City Council and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board shall pass a resolution. At December 31, 2019, the City reports no committed fund balances.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the City Clerk/Treasurer.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above-mentioned categories, and negative fund balances in other governmental funds.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City Council will set aside amounts by resolution as deemed necessary that can only be expended when the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely, such as resources as a reserve for delinquent taxes; a reserve against economic uncertainties leading to overestimates in revenue forecasts; resources to provide for unpredictable changes in state law; and monies for unforeseen expenditures such as natural disasters, for which no other government resources are made available or there is a delay in receiving those funds from other government entities. As of December 31, 2019, the City had no amount set aside for stabilization.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and disclosure of contingent amounts at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the City’s total deposits and investments to the basic financial statements, as of December 31, 2019, are as follows:

Government-wide Statement of Net Position	
Governmental Activities	
Cash and pooled investments	\$ 465,239
Investments	386,536
Business-type Activities	
Cash and pooled investments	1,637,732
Investments	<u>116,062</u>
Total Cash and Investments	<u>\$ 2,605,569</u>
Cash on hand	\$ 8,205
Checking	2,094,765
Savings	50,100
Certificates of deposit	<u>452,499</u>
Total Deposits and Cash on Hand	<u>\$ 2,605,569</u>

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all City deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Generally, the City complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2019, there were no City deposits exposed to custodial credit risk.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2019, for the City's governmental and business-type activities, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 19,555	\$ -
Special assessments	787	-
Accounts receivable	12,641	-
Loans receivable	129,798	125,385
Total Governmental Activities	\$ 162,781	\$ -
Business-Type Activities		
Taxes	\$ 2,897	\$ -
Special assessments	704,825	701,928
Accounts receivable	11,965	-
Due from other governments	110,487	-
Total Business-Type Activities	\$ 830,174	\$ 701,928

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental and business-type activities for the year ended December 31, 2019, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 58,376	\$ -	\$ -	\$ 58,376
Capital assets being depreciated				
Infrastructure	\$ 146,134	\$ -	\$ -	\$ 146,134
Buildings and improvements	304,006	74,713	-	378,719
Land improvements	15,600	-	-	15,600
Machinery and equipment	732,393	9,500	33,000	708,893
Total capital assets being depreciated	<u>\$ 1,198,133</u>	<u>\$ 84,213</u>	<u>\$ 33,000</u>	<u>\$ 1,249,346</u>
Less: accumulated depreciation for				
Infrastructure	\$ 76,871	\$ 4,871	\$ -	\$ 81,742
Buildings and improvements	264,577	4,782	-	269,359
Land improvements	10,140	1,260	-	11,400
Machinery and equipment	468,968	55,018	21,000	502,986
Total accumulated depreciation	<u>\$ 820,556</u>	<u>\$ 65,931</u>	<u>\$ 21,000</u>	<u>\$ 865,487</u>
Total capital assets, depreciated, net	<u>\$ 377,577</u>	<u>\$ 18,282</u>	<u>\$ 12,000</u>	<u>\$ 383,859</u>
Governmental Activities Capital Assets, Net	<u>\$ 435,953</u>	<u>\$ 18,282</u>	<u>\$ 12,000</u>	<u>\$ 442,235</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 46,816	\$ -	\$ -	\$ 46,816
Construction in progress	-	394,094	-	394,094
Total capital assets not depreciated	<u>\$ 46,816</u>	<u>\$ 394,094</u>	<u>\$ -</u>	<u>\$ 440,910</u>
Capital assets being depreciated				
Infrastructure	\$ 6,174,135	\$ -	\$ -	\$ 6,174,135
Buildings and improvements	514,828	-	-	514,828
Land improvements	11,082	-	-	11,082
Machinery and equipment	83,112	-	-	83,112
Total capital assets being depreciated	<u>\$ 6,783,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,783,157</u>
Less: accumulated depreciation for				
Infrastructure	\$ 2,934,986	\$ 156,808	\$ -	\$ 3,091,794
Buildings and improvements	349,020	14,642	-	363,662
Land improvements	11,082	-	-	11,082
Machinery and equipment	80,606	1,005	-	81,611
Total accumulated depreciation	<u>\$ 3,375,694</u>	<u>\$ 172,455</u>	<u>\$ -</u>	<u>\$ 3,548,149</u>
Total capital assets, depreciated, net	<u>\$ 3,407,463</u>	<u>\$ (172,455)</u>	<u>\$ -</u>	<u>\$ 3,235,008</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,454,279</u>	<u>\$ 221,639</u>	<u>\$ -</u>	<u>\$ 3,675,918</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation Expense

Depreciation expense was charged to functions of the City as follows:

Governmental Activities	
General government	\$ 1,164
Public safety	39,736
Highways and streets	14,701
Culture and recreation	10,330
	10,330
Total Depreciation Expense - Governmental Activities	\$ 65,931
Business-Type Activities	
Liquor Store	\$ 11,863
Sewer	82,125
Storm Drainage	13,067
Water	65,400
	65,400
Total Depreciation Expense - Business-Type Activities	\$ 172,455

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2019, consisted of the following operating transfers:

Transfer to General Fund from Loan Pool EDA Special Revenue Fund	\$ 500	Error in posting
Transfer to General Fund from General Capital Projects Fund	50,711	Operating transfer
Transfer to Loan Pool EDA Special Revenue Fund from Liquor Enterprise Fund	24,674	Operating transfer
Transfer to Water Enterprise Fund from Sewer Enterprise Fund	11,754	To close out debt service fund
Transfer to Stormwater Enterprise Fund from Sewer Enterprise Fund	8,142	To close out debt service fund
	8,142	
Total Interfund Transfers	\$ 95,781	

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

1. Compensated Absences

Under the City’s personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 5 to 25 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 25 days of vacation with 50 percent carryover to the following year, which must be used within the first six months of the following year, and 120 days sick leave under the City’s employment policy. Employees are eligible to vest one-third of unused sick leave upon termination in good standing.

Unvested sick leave, approximately \$54,030 at December 31, 2019, is available to employees in the event of illness-related absences and is not paid to them at termination. Compensated absences are generally liquidated from the General Fund and the Liquor, Sewer and Water Enterprise Funds.

2. Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and loans receivable, not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Deferred inflows of resources at December 31, 2019, are summarized below by fund:

<u>Governmental Funds</u>	<u>Taxes</u>	<u>Special Assessments</u>	<u>Loans Receivable</u>	<u>Total</u>
General	\$ 15,104	\$ 606	\$ -	\$ 15,710
Long Term Capital Projects	1,106	-	-	1,106
Loan Pool/EDA Special Revenue	-	-	107,979	107,979
Small Cities Development Special Revenue	-	-	21,819	21,819
Total	\$ 16,210	\$ 606	\$ 129,798	\$ 146,614

3. Long-Term Debt

Governmental Activities

City of Twin Valley capital lease issued August 15, 2018 represents debt incurred for a lease with the option to purchase of a Police Interceptor financed through CapFirst Equipment Finance, Inc. This lease has an original issue amount of \$40,585. This carries a net interest rate of 4.80 percent and is due in annual installments from the General Fund of \$10,954 through August 15, 2021. The balance due on this capital lease at December 31, 2019, is \$20,399.

CapFirst Equipment Finance, Inc. Police Interceptor			
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,956	\$ 998	\$ 10,954
2021	10,443	511	10,954
	\$ 20,399	\$ 1,509	\$ 21,908

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities

City of Twin Valley General Obligation Utility Revenue and Refunding Bonds, Series 2012A represent debt incurred to pay off the General Obligation Refunding Bonds of 2003 and the General Obligation Storm Water Revenue Bond, Series 2007A. As a result of the refunding, the City reduced its total debt service payments by \$73,067 and obtained an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$65,390. These bonds have an original issue amount of \$599,000, carry an interest rate of 2.1 percent, and are due in semiannual installments which are paid from the Sewer Fund, Water Fund, and Storm Utility Fund through December 1, 2023. The balance due on these bonds at December 31, 2019, is \$229,000.

City of Twin Valley General Obligation Utility Revenue Refunding Bonds, Series 2013A represent debt incurred to pay off the General Obligation Wastewater and Water Revenue Bond of 2008. As a result of the refunding, the City will reduce its total debt service payments by \$582,355 and obtain an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$165,516. These bonds have an original issue amount of \$2,395,000, carry an interest rate of 1.0 to 3.75 percent, and are due in semiannual installments paid from the Sewer Fund and Water Fund through February 1, 2043. In 2019, these bonds were refunded by the issuance of advanced crossover refunding bonds of 2019B. The balance due at December 31, 2019 is \$0.

The City of Twin Valley MNPFA Loan of 2019 has an approved total amount of \$299,070, with \$80,338 received for 2019. It carries a net interest rate of 1.0 percent and is due in annual installments from the Water Enterprise Fund of between \$1,070 and \$12,000, and matures in 2049. The balance due on December 31, 2019 is \$80,338.

The City of Twin Valley General Obligation Utility Refunding Bonds, Series 2019B, represents debt incurred to refund the General Obligation Utility Revenue Refunding Bonds, Series 2013A. As a result of the refunding, the City will reduce its total debt services payments by \$665,146 and will obtain an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$143,545. These bonds have an original issue amount of \$2,013,000, carry an interest rate of 2.7249 percent, and are due in semiannual installments paid from the Sewer Fund and Water Fund through February 1, 2043. The balance due on these bonds at December 31, 2019 is \$2,013,000.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Business-Type Activities (Continued)

Debt service requirements for business-type activities at December 31, 2019, are as follows:

Year Ending December 31	General Obligation Utility Revenue and Refunding Bonds, Series 2012A		\$299,070 Drinking Water State Revolving Fund (PFA) 2019		General Obligation Utility Refunding Bonds Series 2019B	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 59,000	\$ 4,810	\$ 1,070	\$ 1,150	\$ -	\$ 38,230
2021	61,000	3,570	9,000	-	59,000	52,563
2022	63,000	2,290	9,000	-	68,000	50,880
2023	46,000	958	9,000	-	69,000	49,065
2024	-	-	9,000	-	70,000	47,223
2025-2029	-	-	43,268	-	383,000	206,555
2030-2034	-	-	-	-	433,000	152,707
2035-2039	-	-	-	-	491,000	91,491
2040-2043	-	-	-	-	440,000	23,663
Total	<u>\$ 229,000</u>	<u>\$ 11,628</u>	<u>\$ 80,338</u>	<u>\$ 1,150</u>	<u>\$ 2,013,000</u>	<u>\$ 712,377</u>

Long-Term Liability

Governmental Activities

Long-term liability activity for the governmental activities for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Police Inceptor Lease	\$ 29,891	\$ -	\$ 9,492	\$ 20,399	\$ 9,956
Compensated Absences	20,494	16,960	12,305	25,149	10,789
Net Pension Liability	175,824	1,060	-	176,884	-
Governmental Activities Long-Term Liabilities	<u>\$ 226,209</u>	<u>\$ 18,020</u>	<u>\$ 21,797</u>	<u>\$ 222,432</u>	<u>\$ 20,745</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

II. Detailed Notes on All Funds

C. Liabilities

Long-Term Liability

Business-Type Activities (Continued)

Long-term liability activity for the business-type activities for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Utility Revenue and Refunding Bonds, Series 2012A	\$ 286,000	\$ -	\$ 57,000	\$ 229,000	\$ 59,000
G.O. Utility Revenue Refunding Bonds, Series 2013A	2,090,000	-	2,090,000	-	-
G.O. Utility Revenue Refunding Bonds, Series 2019B	-	2,013,000	-	2,013,000	-
\$299,070 Drinking Water State Revolving Funds (PFA) 2019	-	80,338	-	80,338	1,070
Less: Bond discount	(33,910)	-	33,910	-	-
Compensated Absences	17,388	15,700	11,472	21,616	8,960
Net Pension Liability	<u>147,122</u>	<u>-</u>	<u>4,259</u>	<u>142,863</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 2,506,600</u>	<u>\$ 2,109,038</u>	<u>\$ 2,196,641</u>	<u>\$ 2,486,817</u>	<u>\$ 69,030</u>

III. Defined Benefit Pension Plans

A. Plan Description

The City of Twin Valley participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes, Chapters 353 and 356*. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan

Eligible full-time and certain part-time employees of the City of Twin Valley are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

A. Plan Description (Continued)

2. Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

3. Statewide Volunteer Firefighter Retirement Plan (SVF)

The Twin Valley Fire Relief Association participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2019, the plan covered 22 active firefighters and 8 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

B. Benefits Provided

1. General Employees Plan Benefits (Continued)

age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

3. Statewide Volunteer Firefighter (SVF) Plan Benefits

The SVF provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City of Twin Valley. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from five years at 40% through 20 years at 100%.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2019. The City of Twin Valley was required to contribute 7.50 percent for Coordinated Plan members. The City of Twin Valley's contributions to the General Employees Fund for the year ended December 31, 2019, were \$20,549. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.8 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City of Twin Valley's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$18,399. The City of Twin Valley's contributions were equal to the required contributions as set by state statute.

3. Statewide Volunteer Firefighter (SVF) Plan Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City of Twin Valley contributions. The State of Minnesota contributed \$0 in fire state aid to the plan for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. The City of Twin Valley's statutorily required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2019, were \$13,262. The City of Twin Valley's contributions were equal to the required contributions as set by state statute. In addition, the City of Twin Valley did not make any voluntary contributions to the plan for the year ended December 31, 2019.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2019, the City of Twin Valley reported a liability of \$210,093 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Twin Valley totaled \$6,500. The City of Twin Valley's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Twin Valley's proportionate share of the net pension liability was based on the City of Twin Valley's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019. The City of Twin Valley's proportionate share was .0038 percent, which was a decrease of .0001 percent from its proportion measured as of June 30, 2018.

Proportionate share of the net pension liability	\$	210,093
State of Minnesota's proportionate share of the net pension liability associated with the City of Twin Valley		6,500
Total	\$	216,593

There were no provision changes during the measurement period.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2019, the City of Twin Valley recognized pension expense of \$17,172 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Twin Valley recognized an additional \$487 as grant revenue for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City of Twin Valley reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,162	\$ -
Changes in actuarial assumptions	-	8,538
Net collective difference between projected and actual investment earnings	-	13,486
Changes in proportion	-	13,738
Contributions paid to PERA subsequent to the measurement date	9,249	-
Total	\$ 12,411	\$ 35,762

\$9,249 reported as deferred outflows of resources related to pensions resulting from the City of Twin Valley's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2020	\$ (14,261)
2021	(12,968)
2022	(5,707)
2023	337
2024	-

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2019, The City of Twin Valley reported a liability of \$109,654 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Twin Valley's proportionate share of the net pension liability was based on the City of Twin Valley's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2019, the City of Twin Valley's proportionate share was .0103 percent, a .0030 percent increase from its proportionate share measured as of June 30, 2018. The City of Twin Valley also recognized \$1,390 for the year ended December 31, 2019, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

There were no provision changes during the measurement period.

For the year ended December 31, 2019, the City of Twin Valley recognized pension expense of \$18,813 for its proportionate share of the Police and Fire Plan's pension expense.

As of December 31, 2019, the City of Twin Valley reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,572	\$ 17,823
Changes in actuarial assumptions	97,179	80,521
Net collective difference between projected and actual investment earnings	-	5,675
Changes in proportion	4,465	13,376
Contributions paid to PERA subsequent to the measurement date	<u>8,626</u>	<u>-</u>
Total	<u>\$ 113,842</u>	<u>\$ 117,395</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Pension Costs

2. Police and Fire Fund Pension Costs (Continued)

\$8,626 reported as deferred outflows of resources related to pensions resulting from the City of Twin Valley's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ (7,040)
2021	(6,830)
2022	449
2023	801
2024	441

3. Statewide Volunteer Firefighter (SVF) Plan Pension Costs

At December 31, 2019, the City of Twin Valley reported a net pension asset of \$149,160 for the SVF plan. The net pension asset was measured as of December 31, 2019. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a-b)</u>
Beginning Balance 12/31/2018	\$ 264,824	\$ 326,284	\$ (61,460)
Changes for the Year:			
Service Cost	11,442	-	11,442
Interest on Pension Liability	15,610	-	15,610
Actuarial Experience (Gains)/Losses	(44,821)	-	(44,821)
Projected Investment Earnings	-	19,577	(19,577)
Changes in Benefit Level	-	-	-
State Contributions	-	13,262	(13,262)
Asset (Gain)/Loss	-	38,131	(38,131)
Benefit Payouts	(32,200)	(32,200)	-
PERA Administrative Fee	-	(1,040)	1,040
Net Changes	<u>\$ (49,969)</u>	<u>\$ 37,731</u>	<u>\$ (87,700)</u>
Balance End of Year 12/31/2019	<u>\$ 214,855</u>	<u>\$ 364,015</u>	<u>\$ (149,160)</u>

There were no benefit provision changes during the measurement period.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

D. Pension Costs

3. Statewide Volunteer Firefighter (SVF) Plan Pension Costs (Continued)

For the year ended December 31, 2019, the City of Twin Valley recognized pension expense of (\$8,075) for its proportionate share of the SVF's pension expense.

At December 31, 2019, the City of Twin Valley reported its proportionate share of the Statewide Volunteer Firefighter (SVF) Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 64,504
Difference between projected and actual investment earnings	-	25,425
Total	\$ -	\$ 89,929

\$0 reported as deferred outflows of resources related to pensions resulting from the City of Twin Valley contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2019	\$ (20,425)
2020	(20,425)
2021	(18,695)
2022	(13,792)
2023	(16,592)

Total Pension Expense

The total pension expense for all plans recognized by the City of Twin Valley for the year ended December 31, 2019, was \$27,910.

E. Actuarial Assumptions

General Fund and Police and Fire Fund

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	<u>General Employees Plan</u>	<u>Police & Fire Plan</u>
Inflation	2.50% per year	2.50% per year
Active Member Payroll Growth	3.25% per year	3.25% per year
Investment Rate of Return	7.50%	7.50%

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

E. Actuarial Assumptions

General Fund and Police and Fire Fund (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the result of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

1. General Employees Fund

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2. Police and Fire Fund

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

General Fund and Police and Fire Fund

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%

Statewide Volunteer Firefighter (SVF) Plan

The total pension liability at December 31, 2019, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later age of 50 or 20 years of service
- Investment Rate of Return 6.0%
- Inflation 3.0% per year

There were no changes in actuarial assumptions in 2019.

III. Defined Benefit Pension Plans (Continued)

F. Discount Rate

General Fund and Police and Fire Fund

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

F. Discount Rate (Continued)

Statewide Volunteer Firefighter (SVF) Plan

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed the contributions to the SVF plan will be made at the rate specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City of Twin Valley’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Twin Valley’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis						
<i>Net Pension Liability (Asset) at</i>						
<i>Different Discount Rates</i>						
	General Employees Fund		Police and Fire Fund		Firefighter Retirement Plan	
1% Lower	6.50%	\$ 345,382	6.50%	\$ 239,683	5.00%	\$ (141,936)
Current Discount Rate	7.50%	\$ 210,093	7.50%	\$ 109,654	6.00%	\$ (149,160)
1% Higher	8.50%	\$ 98,386	8.50%	\$ 2	7.00%	\$ (156,246)

H. Plan Investments - Statewide Volunteer Firefighter Plan

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the ongoing management of the funds and are updated periodically.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

III. Defined Benefit Pension Plans

H. Plan Investments - Statewide Volunteer Firefighter Plan (Continued)

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

The six percent long-term expected rate of return on pension plans investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations for a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during fiscal year 2019 for the Volunteer Firefighter Fund.

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

IV. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The City, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The City Council estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage, or destruction of assets; errors or omissions; injuries to employees; employee health coverage; or natural disasters. The City has entered into a joint powers agreement with other Minnesota cities to form the League of Minnesota Cities Insurance Trust (LMCIT) to cover workers’ compensation and property and casualty liabilities. There

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

IV. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

C. Conduit Debt

The City has issued \$550,000 Assisted Living Facility Revenue Bonds to provide for the construction of the Lutheran Memorial Home Project. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of rental to be received from a lease agreement between the City and Lutheran Memorial Homes. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At December 31, 2019, the outstanding balance on the Assisted Living Facility Bonds is \$129,240.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 148,816	\$ 148,816	\$ 143,950	\$ (4,866)
Special assessments	\$ -	\$ -	\$ 491	\$ 491
Licenses and permits	\$ 3,225	\$ 3,225	\$ 2,635	\$ (590)
Intergovernmental				
Shared Revenues				
PERA Rate Reimbursement	\$ 912	\$ 912	\$ 912	\$ -
Disparity Reduction Credit	1,000	1,000	-	(1,000)
Police Aid	16,000	16,000	17,212	1,212
Local Government Aid	316,055	316,055	316,055	-
Market Value Credit	100	100	62	(38)
State Grants				
Minnesota Department/Board of				
Natural Resources	33,542	33,542	33,541	(1)
Public Safety	3,300	3,300	4,510	1,210
Trial Courts	4,000	4,000	958	(3,042)
Transportation	1,800	1,800	2,178	378
Peace Officer Standards and Training	5,000	5,000	2,983	(2,017)
Federal Grants				
Recreational Trails Program	-	-	18,842	18,842
Total Intergovernmental	\$ 381,709	\$ 381,709	\$ 397,253	\$ 15,544
Charges for services				
General government	\$ 19,300	\$ 19,300	\$ 16,388	\$ (2,912)
Public safety	28,263	28,263	5,100	(23,163)
Culture and recreation	1,000	1,000	755	(245)
Total Charges for Services	\$ 48,563	\$ 48,563	\$ 22,243	\$ (26,320)
Gifts and contributions				
Public safety	5,800	5,800	3,157	(2,643)
Culture and recreation	5,900	5,900	67,733	61,833
Total Gifts and Contributions	\$ 11,700	\$ 11,700	\$ 70,890	\$ 59,190
Investment earnings	\$ 1,800	\$ 1,800	\$ 3,856	\$ 2,056

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (continued)				
Miscellaneous				
General government	\$ 54,738	\$ 54,738	\$ 31,450	\$ (23,288)
Public Safety	2,750	2,750	987	(1,763)
Culture and recreation	1,800	1,800	180	(1,620)
Rental income	4,000	4,000	14,904	10,904
Total Miscellaneous	\$ 63,288	\$ 63,288	\$ 47,521	\$ (15,767)
Total Revenues	\$ 659,101	\$ 659,101	\$ 688,839	\$ 29,738
Expenditures				
Current				
General government				
Mayor/council	\$ 11,205	\$ 11,205	\$ 10,894	\$ 311
Finance/office staff	35,390	35,390	32,491	2,899
General administration	78,000	78,000	70,146	7,854
Assessor	3,200	3,200	3,150	50
Professional services	3,300	3,300	2,600	700
Legal	11,000	11,000	7,086	3,914
Airport	1,350	1,350	-	1,350
Buildings and grounds	21,525	21,525	19,545	1,980
Other general government	2,400	2,400	3,553	(1,153)
Total general government	\$ 167,370	\$ 167,370	\$ 149,465	\$ 17,905
Public safety				
Police	\$ 151,935	\$ 151,935	\$ 151,558	\$ 377
Fire	42,950	42,950	45,606	(2,656)
Rescue services	15,325	15,325	13,319	2,006
Other public safety	1,500	1,500	1,447	53
Total public safety	\$ 211,710	\$ 211,710	\$ 211,930	\$ (220)
Highways and streets				
Streets and alleys	\$ 126,595	\$ 126,595	\$ 67,276	\$ 59,319
Snow and ice removal	13,300	13,300	10,529	2,771
Street lighting	22,100	22,100	20,123	1,977
Total highways and streets	\$ 161,995	\$ 161,995	\$ 97,928	\$ 64,067

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (continued)				
Culture and recreation				
Community Center	\$ 16,105	\$ 16,105	\$ 12,905	\$ 3,200
Parks	37,650	37,650	34,145	3,505
Snowmobile and ski trails	33,542	33,542	52,383	(18,841)
Wimmer Cabins	18,475	18,475	18,387	88
Other culture and recreation	1,700	1,700	610	1,090
Total culture and recreation	\$ 107,472	\$ 107,472	\$ 118,430	\$ (10,958)
Conservation of natural resources				
Weed and pest control	\$ 3,600	\$ 3,600	\$ 1,779	\$ 1,821
Debt service				
Principal retirement	\$ 9,492	\$ 9,492	\$ 9,492	\$ -
Interest	1,462	1,462	1,462	-
Total debt service	\$ 10,954	\$ 10,954	\$ 10,954	\$ -
Capital outlay				
Highways and streets	\$ -	\$ -	\$ 2,300	\$ (2,300)
Culture and recreation	22,000	22,000	74,713	(52,713)
Total capital outlay	\$ 22,000	\$ 22,000	\$ 77,013	\$ (55,013)
Total Expenditures	\$ 685,101	\$ 685,101	\$ 667,499	\$ 17,602
Excess of Revenues Over (Under) Expenditures	\$ (26,000)	\$ (26,000)	\$ 21,340	\$ 47,340
Other Financing Sources (Uses)				
Transfers in	26,000	26,000	51,211	25,211
Net Change in Fund Balance	\$ -	\$ -	\$ 72,551	\$ 72,551
Fund Balance - January 1	578,956	578,956	578,956	-
Fund Balance - December 31	\$ 578,956	\$ 578,956	\$ 651,507	\$ 72,551

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2019**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2019	\$ 20,549	\$ 20,549	\$ -	\$ 273,987	7.5%
December 31, 2018	\$ 19,450	\$ 19,450	\$ -	\$ 259,309	7.5%
December 31, 2017	\$ 20,096	\$ 20,096	\$ -	\$ 267,947	7.5%
December 31, 2016	\$ 20,169	\$ 20,169	\$ -	\$ 268,920	7.5%
December 31, 2015	\$ 21,198	\$ 21,198	\$ -	\$ 282,649	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2019	\$ 18,399	\$ 18,399	\$ -	\$ 113,574	16.2%
December 31, 2018	\$ 16,752	\$ 16,752	\$ -	\$ 103,406	16.2%
December 31, 2017	\$ 17,360	\$ 17,360	\$ -	\$ 107,160	16.2%
December 31, 2016	\$ 17,068	\$ 17,068	\$ -	\$ 105,358	16.2%
December 31, 2015	\$ 16,597	\$ 16,597	\$ -	\$ 102,451	16.2%

FIRE RELIEF ASSOCIATION PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
December 31, 2019	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2018	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2017	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2016	\$ -	\$ -	\$ -	N/A	N/A
December 31, 2015	\$ -	\$ -	\$ -	N/A	N/A

Note: These schedules are intended to present 10 years and will be completed as available.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2019**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0038%	\$ 210,093	\$ 6,500	\$ 216,593	\$ 277,340	88.07%	80.23%
June 30, 2018	0.0039%	\$ 216,356	\$ 1,643	\$ 217,999	\$ 262,393	88.07%	79.53%
June 30, 2017	0.0042%	\$ 268,125	\$ 99	\$ 268,224	\$ 288,218	93.03%	75.90%
June 30, 2016	0.0043%	\$ 349,139	\$ 1,342	\$ 350,481	\$ 269,882	129.37%	68.90%
June 30, 2015	0.0046%	\$ 238,396	\$ -	\$ 238,396	\$ 279,866	85.18%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0103%	\$ 109,654	\$ 1,390	\$ 111,044	\$ 111,497	98.35%	89.26%
June 30, 2018	0.0100%	\$ 106,590	\$ 900	\$ 107,490	\$ 104,682	101.82%	88.80%
June 30, 2017	0.0100%	\$ 135,012	\$ 900	\$ 135,912	\$ 109,122	123.73%	85.40%
June 30, 2016	0.0110%	\$ 441,449	\$ 990	\$ 442,439	\$ 109,467	403.27%	63.90%
June 30, 2015	0.0110%	\$ 124,986	\$ 900	\$ 125,886	\$ 99,523	125.59%	86.60%

FIRE RELIEF ASSOCIATION PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	100%	\$ (149,160)	\$ -	\$ (149,160)	N/A	N/A	169.40%
June 30, 2018	100%	\$ (61,460)	\$ -	\$ (61,460)	N/A	N/A	123.20%
June 30, 2017	100%	\$ (125,752)	\$ -	\$ (125,752)	N/A	N/A	158.50%
June 30, 2016	100%	\$ (93,547)	\$ -	\$ (93,547)	N/A	N/A	147.40%
June 30, 2015	100%	\$ (91,008)	\$ -	\$ (91,008)	N/A	N/A	154.70%

Note: These schedules are intended to present 10 years and will be completed as available.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 4

**STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Changes for the Year			
Service cost	\$ 11,442	\$ -	\$ 11,442
Investment earnings	15,610	-	15,610
Actuarial experience (gains)/losses	(44,821)	-	(44,821)
Projected investment earnings	-	19,578	(19,578)
Contributions (state)	-	13,262	(13,262)
Asset (gain)/loss	-	38,131	(38,131)
Benefit payments	(32,200)	(32,200)	-
Administrative costs	-	(1,040)	1,040
	\$ (49,969)	\$ 37,731	\$ (87,700)
Balance - January 1	264,824	326,284	(61,460)
Balance - December 31	\$ 214,855	\$ 364,015	\$ (149,160)
 Plan Fiduciary Net Position			
Fire state aid		\$ 9,958	
Fire supplemental aid		2,305	
Supplemental benefit reimbursement		1,000	
Net investment earnings		57,708	
Administrative expenses		(1,040)	
Benefit payments		(32,200)	
Net Change in Fiduciary Net Position		\$ 37,731	
Fiduciary Net Position - January 1		326,284	
Fiduciary Net Position - December 31		\$ 364,015	
 Association's Net Pension Liability (Asset) - December 31		\$ (149,160)	
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		169.4%	

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

I. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

In September of each year, the City Council drafts a preliminary budget after giving interested citizens a reasonable opportunity to be heard. The final budget is approved in December and a certified levy is sent to Norman County. Truth in taxation requires that a final levy may not exceed a preliminary levy.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

II. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2019:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Other general government	\$ 3,553	\$ 2,400	\$ (1,153)
Public safety			
Fire	45,606	42,950	(2,656)
Culture and recreation			
Snowmobile and ski trails	52,383	33,542	(18,841)
Capital outlay			
Highways and streets	2,300	-	(2,300)
Culture and recreation	74,713	22,000	(52,713)

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommended by PERA and adopted by the City Council.

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2017 Changes (Continued)

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Police and Fire Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2016 to MP-2017.

2018 Changes (Continued)

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent.
- The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The postretirement benefit increase to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

SUPPLEMENTARY INFORMATION

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Loan Pool/EDA Special Revenue Fund is used to account for and report loan transactions committed to economic development.

The Small Cities Development Grant Special Revenue Fund is used to account for and report the financial transactions of projects to repair commercial and residential properties committed to economic development.

Capital Projects Funds

The Long-Term Capital Projects Fund is used to account for and report financial resources committed to capital improvements. Financing is provided by taxes levied for future capital projects.

The Lot Incentive Program Capital Projects Fund is used to account for and report the sale of donated city lots and the related expenses assigned to capital outlay.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	<u>Special Revenue Funds (Statement 3)</u>	<u>Capital Projects Funds (Statement 5)</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Assets</u>			
Cash and pooled investments	\$ 83,605	\$ 78,585	\$ 162,190
Investments	18,718	-	18,718
Taxes receivable			
Current	-	210	210
Prior	-	1,106	1,106
Loans receivable	129,798	-	129,798
Total Assets	<u>\$ 232,121</u>	<u>\$ 79,901</u>	<u>\$ 312,022</u>
 <u>Deferred Inflows of Resources, and Fund Balances</u>			
Deferred Inflows of Resources			
Taxes	\$ -	\$ 1,106	\$ 1,106
Loans	129,798	-	129,798
Total Deferred Inflows of Resources	<u>\$ 129,798</u>	<u>\$ 1,106</u>	<u>\$ 130,904</u>
Fund Balances			
Restricted for economic development	\$ 102,323	\$ -	\$ 102,323
Assigned to capital outlay	-	78,795	78,795
Total Fund Balances	<u>\$ 102,323</u>	<u>\$ 78,795</u>	<u>\$ 181,118</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 232,121</u>	<u>\$ 79,901</u>	<u>\$ 312,022</u>

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Special Revenue Funds (Statement 4)	Capital Projects Funds (Statement 6)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Property taxes	\$ -	\$ 10,206	\$ 10,206
Investment earnings	241	-	241
Miscellaneous	5,075	-	5,075
Total Revenues	\$ 5,316	\$ 10,206	\$ 15,522
Expenditures			
Current			
Economic development	76,031	-	76,031
Excess of Revenues Over (Under) Expenditures	\$ (70,715)	\$ 10,206	\$ (60,509)
Other Financing Sources (Uses)			
Transfers in	\$ 24,674	\$ -	\$ 24,674
Transfers out	(500)	(50,711)	(51,211)
Total Other Financing Sources (Uses)	\$ 24,174	\$ (50,711)	\$ (26,537)
Net Change in Fund Balance	\$ (46,541)	\$ (40,505)	\$ (87,046)
Fund Balance - January 1	148,864	119,300	268,164
Fund Balance - December 31	\$ 102,323	\$ 78,795	\$ 181,118

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2019**

	Loan Pool/EDA	Small Cities Development Grant	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 14,118	\$ 69,487	\$ 83,605
Investments	18,718	-	18,718
Loans receivable	107,979	21,819	129,798
Total Assets	\$ 140,815	\$ 91,306	\$ 232,121
<u>Deferred Inflows of Resources, and Fund Balances</u>			
Deferred Inflows of Resources			
Loans	\$ 107,979	\$ 21,819	\$ 129,798
Fund Balances			
Restricted for economic development	32,836	69,487	102,323
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 140,815	\$ 91,306	\$ 232,121

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Loan Pool/EDA	Small Cities Development Grant	Total (Statement 2)
Revenues			
Investment earnings	\$ 241	\$ -	\$ 241
Miscellaneous	4,974	101	5,075
Total Revenues	\$ 5,215	\$ 101	\$ 5,316
Expenditures			
Current			
Economic development	76,031	-	76,031
Excess of Revenues Over (Under) Expenditures	\$ (70,816)	\$ 101	\$ (70,715)
Other Financing Sources			
Transfers in	\$ 24,674	\$ -	\$ 24,674
Transfers out	(500)	-	(500)
Total Other Financing Sources (Uses)	\$ 24,174	\$ -	\$ 24,174
Net Change in Fund Balance	\$ (46,642)	\$ 101	\$ (46,541)
Fund Balance - January 1	79,478	69,386	148,864
Fund Balance - December 31	\$ 32,836	\$ 69,487	\$ 102,323

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 5

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
DECEMBER 31, 2019**

	Long-Term Capital Projects	Lot Incentive Program	Total (Statement 1)
<u>Assets</u>			
Cash and pooled investments	\$ 65,611	\$ 12,974	\$ 78,585
Taxes receivable			
Current	210	-	210
Prior	1,106	-	1,106
Total Assets	\$ 66,927	\$ 12,974	\$ 79,901
 <u>Deferred Inflows of Resources and Fund Balances</u>			
Deferred Inflows of Resources			
Taxes	\$ 1,106	\$ -	\$ 1,106
Fund Balances			
Assigned to capital outlay	65,821	12,974	78,795
Total Deferred Inflows of Resources and Fund Balances	\$ 66,927	\$ 12,974	\$ 79,901

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Statement 6

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Long-Term Capital Projects	Lot Incentive Program	Total (Statement 2)
Revenues			
Property taxes	\$ 10,206	\$ -	\$ 10,206
Other Financing Sources (Uses)			
Transfers out	(50,711)	-	(50,711)
Net Change in Fund Balance	\$ (40,505)	\$ -	\$ (40,505)
Fund Balance - January 1	106,326	12,974	119,300
Fund Balance - December 31	<u>\$ 65,821</u>	<u>\$ 12,974</u>	<u>\$ 78,795</u>

OTHER SCHEDULES

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019**

Shared Revenue

State

Local government aid	\$ 316,055
Market value credit	62
PERA rate reimbursement	912
Police state aid	17,212
	<hr/>

Total Shared Revenue **\$ 334,241**

Grants

State

Minnesota Department/Board of

Public Facilities Authority	\$ 321,355
Natural Resources	33,541
Peace Officer Standards and Training	2,983
Public Safety	4,510
Transportation	2,178
Trial Courts	958
	<hr/>

Total State **\$ 365,525**

Federal

Department of Transportation	<hr/> 18,842
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Total Grants **\$ 384,367**

Total Intergovernmental Revenue **\$ 718,608**

MANAGEMENT AND COMPLIANCE SECTION

Colleen Hoffman, Director
Crystelle Philipp, CPA
Marit Knutson, CPA



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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

City Council
City of Twin Valley

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twin Valley as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Twin Valley's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Twin Valley’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures other matters may have come to our attention regarding the City’s noncompliance with the above referenced provisions.

City of Twin Valley’s Response to Findings

The City’s response to the finding identified in our audit has been included in the accompanying Schedule of Findings and Responses. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the result of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Philipp, & Knutson, PLLC
April 7, 2020

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number: 2019-001

Finding Title: Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

Context: The small size and available staffing within the City limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of the City, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the City Council be aware that limited staffing causes inherent risks in safeguarding the City's assets and the proper reporting of financial activity. We recommend the City Council continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

City's Response: *The Council reviews the claims listings at monthly meetings and approves bills to be paid. All checks require three original signatures, the Mayor, the Clerk/Treasurer, and the Vice Mayor. The Council also approves all transfers, selling and purchasing of investments and reserves. The local financial institution requires written documentation of the Council action approving these transactions.*

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Finding Number: 2019-002

Finding Title: Internal Controls

Criteria: The financial statements are the responsibility of the City of Twin Valley’s management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the City’s objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for monitoring to ensure, effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Context: Although the City of Twin Valley has a system of internal control in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the City cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The City of Twin Valley has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the City formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

City’s Response: The City Council along with the City Clerk-Treasurer will work to create a formalized document in regards to internal controls and the monitoring process used to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

III. OTHER FINDINGS AND RESPONSES

MINNESOTA LEGAL COMPLIANCE

ITEM RESOLVED THIS YEAR

Finding Number: 2018-001

Finding Title: Deposits in Excess of Collateral

Criteria: City bank deposits are required to be secured by insurance and/or pledged collateral. Minn. Stat. § 118A.03 requires that “...the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day.”

Condition: At December 31, 2018, the City deposits with the United Valley Bank of Cavalier, ND, exceeded the amount of insurance and collateral pledged by \$218,515.

**CITY OF TWIN VALLEY
TWIN VALLEY, MINNESOTA**

Context: City bank deposit balances fluctuate from day to day and pledges of collateral are amended only periodically.

Effect: Unsecured City deposits expose the City to a loss if the financial institution develops difficulties.

Cause: The City does not have formal policies and procedures for monitoring collateral levels compared to amounts on deposits.

Recommendation: We recommend the City obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis.

City's Response: *The City of Twin Valley is aware and has already corrected the amount of pledged collateral towards the balance at our banking institution.*



CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2005-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action: City Council and management.

Corrective Action Planned: The City of Twin Valley is aware of the segregation of duties issue. Due to limited staffing, segregation of duties is not always possible. Management will implement oversight procedures where and whenever possible.

Anticipated Completion Date: *Ongoing. The City Council and management are aware of the limited ability to segregate duties to an optimal level; however, oversight procedures have been implemented to provide compensating controls and continue to be improved whenever possible.*

Finding Number: 2007-001

Finding Title: Internal Controls

Name of Contact Person Responsible for Corrective Action: Rachel Johnson, City Clerk/Treasurer

Corrective Action Planned: The City will formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Anticipated Completion Date: *Ongoing. The City strives to remedy this issue at every opportunity, however, at this time, this issue is expected to continue indefinitely.*



SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2005-001

Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action: Management is continually aware that segregation of duties is not adequate from an internal control point of view. The City Council continues to implement oversight procedures and monitor those procedures to determine if they are still effective.

Status: Not fully corrected.

Finding Number: 2007-001

Finding Title: Internal Controls

Summary of Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The City does not have a process for monitoring to ensure the internal controls are effective.

Summary of Corrective Action: The City has begun to formalize written documentation of their internal controls and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

Status: Not fully corrected.

Finding Number: 2018-001

Finding Title: Deposits in Excess of Collateral

Summary of Condition: At December 31, 2018, the City deposits with United Valley Bank of Cavalier, ND, exceeded the amount of insurance and collateral pledged by \$218,515.

Summary of Corrective Action: The City will obtain adequate levels of collateral from all designated depositories as required by Minn. Stat. § 118A.03, and monitor the collateral on a regular basis.

Status: Resolved.